



INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: March 21, 2012	
SUBJECT/REPORT NO: Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP) Update (FCS11006(a)) (City Wide)	
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SIGNATURE:	

Council Direction:

On February 7, 2012, the General Issues Committee directed staff to provide an update to Report FCS11006, respecting the City's Asset Backed Commercial Paper (ABCP) holdings.

Information:

As detailed in Report FCS11006 "Restructured Master Asset Vehicle (MAV) Notes and Asset Backed Commercial Paper (ABCP)" submitted to Audit, Finance and Administration Committee on February 2, 2011, the remaining restructured Master Asset Vehicle (MAV) notes had a book cost of \$76,357,041 and the Devonshire asset backed commercial paper had a book cost of \$9,919,000 for a total of \$86,276,041. There have been allowances for loss taken in prior years of \$12.9 million on the MAV notes and \$5.5 million against the Devonshire notes. Realized losses of \$3.9 million due to defaults and one sale at 85% of book cost were taken to year end 2010. There was no budgetary or financial impact on the City's operation.

For 2011, there are no further allowances for losses expected to be taken. As well, there are four out of six MAV notes paying interest as per contract or as earned, and the major restructured MAV strip (CI-A-1, CI-A-2, CI-B and CI-C) is projected or forecast to mature in early 2017 at a price of \$0.98. The following table outlines the December 31, 2011 book cost of the MAV notes which has declined due to amortization and redemption of MAVIII notes at 99%. The MAV notes amortized book cost at December

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31, 2011 was \$76,355,451 and the total including Devonshire (\$9,919,000) was \$86,274,451. The principal or par value of all restructured notes alone is \$76,282,973. The assigned book cost at restructuring exceeded the principal or par value of the securities at exchange. The premium over book cost has been amortized since the Report FCS11006 in the amount of \$1,590.00 (\$86,276,042-\$86,274,451). The additional cost is amortized over the remaining expected term of the assets. The table below shows updated book costs and estimated market values for the remaining MAV notes quoted by one dealer for small amounts of restructured strip notes. The market values below assume 100% principal recovery and no interest as quoted on various dates in 2010 and 2011 by the one dealer. There is no budgetary or financial impact on the City's operations expected.

Restructured Notes (MAV) and ABCP (Devonshire)

Description	Credit Rating	Dec. 31/11 Attributed Book Cost	Forecast Value Per Dollar 2017	Market Value Nov.22/10	Market Value Nov.7/11	Market Value Feb.10/12
Restructured						
*MAVII CI-A-1	A High	\$41,157,113	\$.98	\$0.7375	\$0.73	\$0.74
*MAVII CI-A-2	BBB	27,091,010	.98	.6400	.66	.6775
MAVII CI-B	n/a	4,917,773	.98	.4275	.545	.5575
MAVII CI-C	n/a	2,266,953	.98	.1200	.335	.35
		\$75,432,849				
Tracking						
Restructured						
*MAVII CI-13	n/a	\$ 851,445	n/a	n/a	n/a	n/a
*MAVIII Remaining	AAA	\$ 71,157	Redeemed 99%	n/a	n/a	n/a
Total Restructured		\$76,355,451				
ABCP Devonshire	n/a	\$ 9,919,000	n/a	n/a	n/a	n/a
Total MAV & ABCP		\$86,274,451				
Principal/ Par Value Restructured MAV		\$76,282,973				

*The restructured A-1, A-2, CI-13 and MAVIII notes pay interest (A-1, A-2 notes pay at a rate of BA's less 50 basis points) on a quarterly basis through contract or as received on

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the CI-13 and MAVIII. The total interest to December 31, 2011 received from conversion of ABCP to MAV's is \$3,514,679.

The restructured MAV notes on February 10, 2012 are forecast to return as much as \$0.98 of principal value per strip. A strip being the combined principal value/par of the A-1, A-2, B and C notes, totalling \$76,282,973. The current market value of the strip is approximately \$0.69 which is an estimated yield to maturity of approximately 9.53%. The foregoing market value ignores interest income which for 2011 was \$546,570 on the total MAV holdings of \$76,282,973 which is simple interest rate of return of approximately 0.72% on all restructured notes, including B and C notes which pay no interest. If the restructured notes mature in early 2017 and \$0.98 principal value is realized, the actual principal loss would approximate \$1.6 million. This is much less than the \$12.9 million allowance allocated, and would result in an income recovery of the difference upon disposition. The break-even to equal the allowance for loss allocated is a strip price of approximately \$0.84 at re-investment rate of 3.0%. The re-investment rate is currently 2.5%.

The Devonshire ABCP is the subject of litigation, and has an allowance for loss of \$5.5 million. This case is being heard by the Investment Industry Regulatory Organization of Canada (IIROC) and the Ontario Securities Commission (OSC) in a separate action. The IIROC hearings have been delayed and to be held, as soon as possible. The City is pursuing independent litigation for recovery from Deutsche Bank, Barclays Bank, Dominion Bond Rating Service, etc. through the law firm of Juroviesky and Ricci LLP. The outcome of the legal proceedings against Deutsche bank and others is uncertain and the result could range from full recovery to full loss. The Courts are currently dealing with various motions from both parties.

While the City's litigation is proceeding, a separate litigation by the conduits against Barclay's bank was successful but did not result in any financial restitution to investors at this time. The litigation by the conduits is expected to result in near full recovery. The Courts, however, have not as yet ruled on distribution of Devonshire assets.